

	<p style="text-align: center;">Budget Panel 23 October 2008</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Resources</p>
<p style="text-align: right;">Wards Affected: ALL</p>	
<p>Schools Capital Programme</p>	

1.0 SUMMARY

- 1.1 The need for capital spending on school buildings has been the most difficult issue the council has had to address in recent years in relation to its capital programme. This report sets out a proposed new approach which would enable the council to ensure resources available to fund capital spending on schools are used efficiently and effectively. The proposal involves developing the schools capital programme over a 10 year period, separating out major elements of the programme such as the Primary Capital Programme and Building Schools for the Future, and combining resources available to schools with mainstream council resources and developer contributions. An initial discussion of the approach has been held with the Schools Forum – which consists of head-teacher and governor representatives - who have said they would want to see more detail before agreeing to the approach. The Executive agreed the approach set out in this report as the basis for developing a 10 year capital programme for schools in consultation with the Schools Forum.
- 1.2 Because of the complexity of the schools capital programme, it is proposed that this is the focus of the discussion of the capital programme at this meeting and other elements of the programme are considered at a future meeting of the Panel.

2.0 RECOMMENDATIONS

- 2.1 The Budget Panel is asked to comment on the proposed approach to developing the schools capital programme.

3.0 DETAILED CONSIDERATIONS

Background

- 3.1 Council funding for the schools capital programme changed following the introduction of prudential borrowing powers in the Local Government Act 2003. Prior to that, the council's spending on the schools capital programme was restricted by tight controls by government which dictated the amount the council could borrow. The introduction of the prudential regime for borrowing meant that the council could borrow additional amounts over and above those permitted by government so long as it complied with the prudential code which required assessment of affordability of the borrowing to the council alongside other things.
- 3.2 The council welcomed the additional flexibility that the new borrowing powers provided it. It developed a thirty year financial plan which demonstrated that levels of borrowing in excess of the amount that the government provided grant support for was possible. From 2004/05, when the prudential borrowing power came into effect, the council used the ability to borrow beyond government limits to support increased investment in roads, affordable housing, and schools.
- 3.3 A number of factors have affected the affordability calculation which means that the council can no longer afford the level of prudential borrowing it introduced in 2004/05. These include:
 - a. Introduction of a tight capping regime that means that council tax cannot be increased by more than 5% each year, together with increasing consensus between political groups that above inflation council tax increases should if possible be avoided;
 - b. A tightening government grant regime which means that government grant for non-schools activities increases each year by significantly below inflation – 2% in 2006/07, 2.7% in 2007/08, 2% in 2008/09, 1.75% in 2009/10, and 1.5% in 2010/11;
 - c. Removal of the adjustment to grant to fund so-called supported borrowing. This means borrowing costs associated with supported borrowing have to be met from the grant floor set out in b. above;
 - d. Significant additional spending pressure on the council's budget, including increased numbers of continuing care cases, demographic pressure on adult social care, increases in land-fill tax and shortage of land-fill, and costs associated with a growing population for which there is no recognition within the government grant regime (unlike schools for which grant increases reflect increased pupil numbers).
- 3.4 Together the changes to the funding position outlined in paragraph 3.3 mean that the council has had to scale back its level of prudential borrowing significantly and is likely to have to do so further in future years as it seeks to match spending to resources that are available.

Challenges

- 3.5 There are a significant number of challenges which the schools' capital programme faces in the longer term, including:
- a. meeting the need for additional schools places in the borough;
 - b. meeting any shortfall in the funding available for the Primary Capital Programme (PCP);
 - c. ensuring adequate resourcing of Building Schools for the Future (BSF) for secondary schools;
 - d. providing an improved special needs (SEN) offer within the borough in order to (1) meet the needs of special needs children within the borough; and (2) reduce pressure on the revenue budget from out-of-borough placements;
 - e. meeting the requirement to provide Phase 3 children's centres, to improve technology in schools, and to deliver the extended schools programme;
 - f. ensuring that conditions issues are addressed (recognising that a significant number of these may be addressed in the medium to longer term through the PCP/BSF/special needs programmes);
 - g. ensuring school buildings are suitable to meet changing curriculum requirements;
 - h. meeting potential shortfalls in funding required for specific elements of the programme eg land at John Kellys.
- 3.6 There is however a significant amount of resource available (or potentially available) to support the programme. This includes:
- a. government grant for the PCP, BSF, SEN, Phase 3 children's centres, technology and extended schools;
 - b. Academy funding;
 - c. section 106 funding/developer contributions;
 - d. capital receipts;
 - e. borrowing by the local authority charged to the General Fund or the Schools Budget (subject to Schools Forum agreement);
 - f. devolved capital funding for schools;
 - g. school balances;
 - h. borrowing by schools under the schools loan fund.

Proposed approach to addressing these issues

- 3.7 In order to address these issues, it is proposed that the following principles be applied:
- a. the schools' capital programme is extended to a 10 year time span to reflect the longer term nature of the PCP and BSF;
 - b. the council continues to use contributions to school schemes from related developments, including an element of ring-fencing of

- capital receipts (eg as in the case of the Oriental City and Stonebridge developments);
- c. the council continues to put its own funding to the capital programme at the level set out in the government's supported borrowing figures, with capital financing charges being met by the General Fund;
 - d. the extended schools, Phase 3 children's centres and IT programmes are self-contained and do not make additional call on resources beyond those allocated by government (although wherever they can be, these programmes should be tied into other programmes to maximise effectiveness of resource utilisation);
 - e. the current SEN capital programme is reviewed with a view to developing a more ambitious scheme aimed at reducing the number of children with SEN educated out-of-borough. This would be funded from:
 - i. existing funding within the capital programme for SEN schemes;
 - ii. £8m Targeted Capital Funding from government;
 - iii. any capital receipts generated as a result of a more fundamental revision to the programme;
 - iv. additional prudential borrowing with funding costs being met from savings within the Schools Budget as a result of reduced costs of out-of-borough placements;
 - f. the Primary Capital Programme be funded from a combination of:
 - i. government grant funding (taking account of funding likely to be available over the whole period of the programme);
 - ii. unallocated funding within the mainline capital programme for hut replacements;
 - iii. developer and other contributions on major developments eg Stonebridge and Oriental City;
 - iv. other section 106 funding;
 - g. Building Schools for the Future (subject to a successful bid) being funded from:
 - i. government grant funding (taking account of funding likely to be available over the whole period of the programme);
 - ii. other funding available through for example the Academy programme;
 - iii. developer and other contributions on major developments eg Stonebridge and Oriental City;
 - iv. other section 106 funding;
 - v. a £500k per annum contribution in the council's general fund revenue budget and £140k per annum contribution in

the capital programme toward funding of the project team/development of the programme;

- h. conditions/suitability work to schools:
 - i. linked closely into the above programmes to avoid unnecessary conditions/suitability work at schools which are due to be remodelled as part of the SEN/PCP/BSF programmes;
 - ii. as far as possible being funded from a combination of:
 - 1. Devolved Capital Funding;
 - 2. Salix funding (boiler and other schemes which lead to better energy efficiency);
 - 3. Schools loan fund where there is a revenue saving to the school as a result of a scheme (eg could be combined with Salix funding on boiler schemes);
 - iii. topped up by council borrowing up to the supported borrowing limit insofar as it is not needed for other purposes within the capital programme (eg to supplement PCP or BSF resources);
- i. if there is an overall shortage of funding taking account of (a) to (h) above:
 - i. the programme is re-phased over a longer period;
 - ii. the Schools Forum agrees to additional prudential borrowing with resulting capital financing charges charged to the Schools Budget.

3.8 This approach was discussed at the Schools Forum on 24th September. The Schools Forum supported further work being carried out but felt that there was insufficient detail at this stage for them to commit to the specific funding approaches proposed.

Taking this forward

- 3.9 In order to take this forward:
- a. More detailed work will be carried out on developing a 10 year programme;
 - b. Discussions will be held with head-teacher representatives on the possibility of making more effective use of Devolved Capital Funding to meet collective needs of schools for additional capital spending
 - c. The Schools Forum will be asked to consider specific proposals for growth in the central element of the Schools Budget to fund additional unsupported borrowing for the schools capital programme as part of future consultation on use of the central element of the Schools Budget.

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